



# Retirement Plan Choices for Self-Employed Individuals

Tax Exempt and Government Entities

Employee Plans

2008 IRS Nationwide Tax Forum

# Tax Advantages of Retirement Plans

- Contributions deductible by employer
- Contributions not taxed until distributed
  - Exception: Designated Roth accounts
- “Catch-up” rules for employees age 50 and older
- Money in retirement plan grows tax-free
- Tax credits for low- and moderate-income savers and for small employers for set-up costs



# Basic Types of Retirement Plans:

- 1) Defined contribution plans
  - Individual accounts
  - Benefit is the accumulated contributions plus earnings at retirement
- 2) Defined benefit plans
  - Traditional pension plan that promises a specified benefit at retirement
  - Employer contributions must be sufficient to fund the promised benefits



# Simplified Employee Pension (SEP)

- Employers set up an IRA for themselves and their employees
- Employer contributions only
- Easy to set up and operate
- Low cost to employer
- No annual filing requirement
- No loans



# SIMPLE IRA Plan

- Employer must have 100 or fewer employees
- Employees can contribute through payroll deduction
- Required employer contributions
- Easy to set up and operate
- No annual filing requirement
- No loans

# Profit-Sharing Plan

- Discretionary employer contributions
  - Set contribution allocation formula
- Plan must not discriminate
- Annual Form 5500 filing requirement
- Higher administrative cost
- Loans permitted



# 401(k) Plan

- Employees defer a portion of their salary
  - Salary deferrals not taxed as current income (except designated Roth contributions)
  - More can be deferred than w/ SIMPLE IRA
- Employer contributions may be made
- Administrative costs may be higher
- Annual Form 5500 filing requirement
- Loans permitted

# 401(k) Plan Features

- Safe-Harbor 401(k) plan
- Designated Roth contributions

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# Defined Benefit Plan

- Fixed, pre-established benefit
- May be able to contribute/deduct more than under defined contribution plan
- Employer contributions required
- Higher administrative cost
- Enrolled Actuary MUST be hired
- Plan must not discriminate
- Form 5500/Schedule B filing required
- Loans permitted

# 401(k) Plans for Self-Employed Individuals

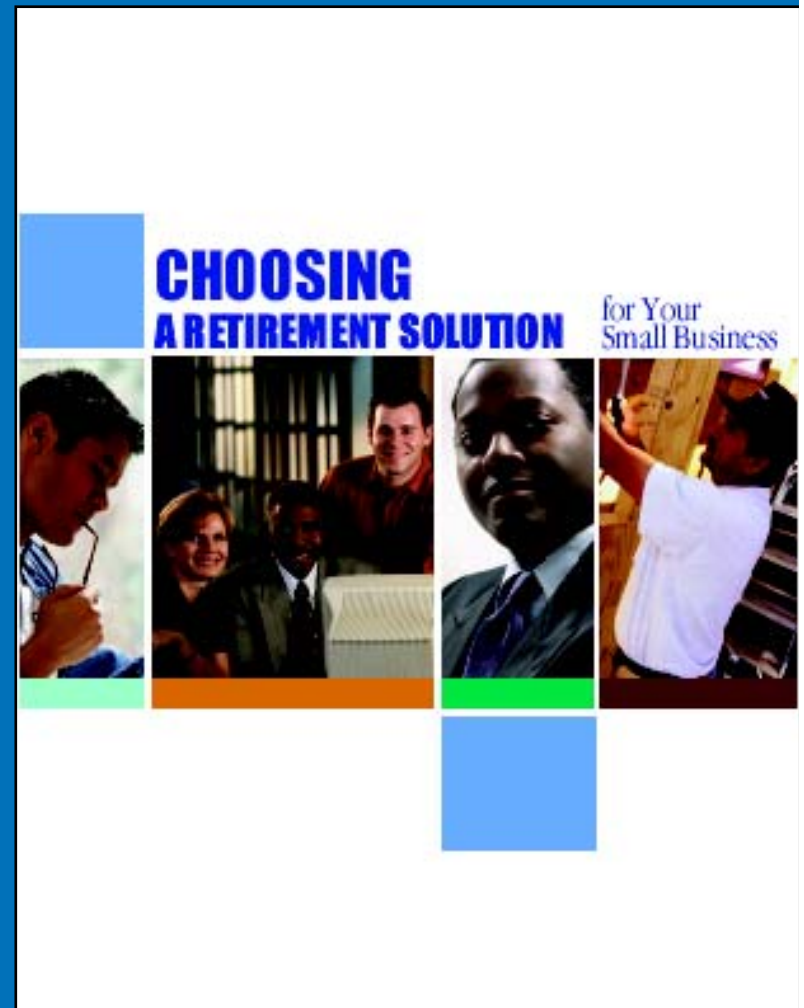
Example: Maximum contribution based on \$184,000 W-2 comp, employee age 50

Plan Type	Contribution			
	EE	Catch-up	ER	Total
401(k)	\$15,500	\$5,000	\$30,500	\$51,000
SEP	\$ 0	\$ 0	\$46,000	\$46,000
SIMPLE	\$10,500	\$2,500	\$5,520	\$18,520

# Retirement Plan Choices for Self-Employed Individuals

## Pub. 3998 *Choosing a Retirement Solution for Your Small Business*

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# Retirement Plan Assistance



- [www.irs.gov/ep](http://www.irs.gov/ep)
  - Includes pages dedicated to Choosing a Retirement Plan
- (877) 829-5500
  - Customer Account Services
- [RetirementPlanQuestions@irs.gov](mailto:RetirementPlanQuestions@irs.gov)
- Newsletters